2007 Annual Report

Teachers' Pension Plan

Your pension/Your future

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Teachers' Pension Board of Trustees

Message from the Board

The Teachers' Pension Board of Trustees is pleased to present this annual report for the fiscal year ending December 31, 2007. We manage your pension plan, administering benefits and investing approximately $16 billion in assets on behalf of our 85,000 plan members. The BC Pension Corporation is our administrative agent, and the British Columbia Investment Management Corporation (bcIMC) is our investment management agent.

As part of our succession planning in 2007, we developed a new governance structure to distribute executive responsibilities. A newly hired executive director, Bruce Kennedy, will manage the administrative oversight and executive advisory responsibilities for the board. I retired as board chair on December 31, 2007. As of January 1, 2008, Gerry Tiede is the new board chair, and Joan Axford is the vice-chair. This team will provide the strong leadership required to manage the pension plan on behalf of its beneficiaries.

In 2007, we continued to closely monitor the plan's financial health to ensure the basic pension promise to all current and future plan members—a pension for life—is met. As part of our plan stewardship responsibilities, we used an open proposal process to secure Eckler Ltd. as the plan actuary for the next actuarial valuation cycle, and PricewaterhouseCoopers as the plan auditor.

Also in 2007, we signed a five-year service delivery agreement with the BC Pension Corporation. This reflects our satisfaction with the service provided by the corporation and guarantees consistent services to plan members.

Communication between the board and the plan partners, the BC Teachers' Federation and the Government of BC, was a board priority in 2007.

A joint meeting of board and plan partner representatives was held in October 2007. We look forward to further opportunities to work with the plan partners for the benefit of all plan members.

The board's investment priority continued to be consistent and steady performance over the long term through sound investment principles. We remained committed to responsible investing (RI) principles, and bcIMC's RI initiatives on our behalf were recognized in *Canadian Socially Responsible Investment Review 2006*.

In 2007, we began looking at new approaches for communicating with members. Our focus was on making sure all members, including younger members, are aware of the value of the plan, and the advantages of defined benefit pension plans over other kinds of retirement savings strategies. We also continued to talk with members and plan partners about the funding challenges we face in providing retiree indexing and subsidized group benefits.

If you would like to contact us or share your comments, please write or e-mail us at the address on the back cover.

John Cook
Chair

In 2007, we continued to closely monitor the plan's financial health to ensure the basic pension promise to all current and future plan members.

Teachers' Pension Board of Trustees

MISSION STATEMENT

"To fulfill the trust the Partners have placed on us by efficiently meeting or exceeding the pension promise made to plan members."

Board Activities and Committees

The board meets four times a year, and trustees also participate in a number of standing and ad hoc committees. Under joint trusteeship, the board must maintain plan actuarial and audit services. In 2007, board committees used a request-for-proposal process to secure these plan services. Also in 2007, an ad hoc committee established a new board governance structure and chair succession plan. Board committees also met regularly to consider issues such as plan benefits, communications, investments and trustee education.

Trustee attendance at more than 40 meetings to conduct board business was consistently very good in 2007. The average attendance of all trustees at eligible meetings was 98%, with individual trustee attendance ranging from 92% to 100%.

Trustees participated in two BC Public Sector Pension Conferences in 2007. These semi-annual invitational conferences are created and presented by the College, Municipal, Public Service and Teachers' pension boards of trustees. They provide education on topics of common interest to the trustees.

Trustee Remuneration

Trustees are remunerated by the plan for their time spent on board business. Trustees receive this remuneration directly if they are not remunerated from any other organization for their time spent on trustee duties. If trustees are remunerated from another organization for their trustee duties, they may request that the remuneration from the plan be paid to the other organization. Trustee remuneration may be adjusted annually under board policy by an amount equal to the cost-of-living adjustments made to pension payments.

Expenses related to trustee attendance at educational events and meetings to conduct board business are reimbursed within board policy limits.

Partners, Trustees and Agents

The Teachers' Pension Plan is jointly trusteed and is governed by a joint trust agreement. Joint trusteeship is the shared management of the plan by representatives of plan members and government. The plan partners are the BC Teachers' Federation (BCTF) and the provincial government. The partners are responsible for appointing the trustees. The **Teachers' Pension Board of Trustees** is responsible for managing the pension plan.

The board may amend the pension plan rules as long as changes can be funded by pension fund surpluses or are cost-neutral to the plan. If the plan's actuary determines it is necessary to increase contribution rates, the trustees must increase employer and member contribution rates equally.

The **British Columbia Pension Corporation** provides benefit administration services as an agent of the board. The corporation enrols members, collects contributions, processes benefits and issues pension payments.

The **British Columbia Investment Management Corporation** (bcIMC) provides investment management services as an agent of the board. The bcIMC is one of Canada's largest investment managers and administers more than $84 billion in assets on behalf of public sector pension plans, the provincial government, public trusts, and insurance funds.

Member Services and Communications

We work closely with the communications staff at the BC Pension Corporation to ensure information about the plan is easy to understand and easy to use. Members need to be aware of the value of their plan, and they need to understand how they can maximize their benefits. We look for innovative ways to get these messages out, and we continually focus test and simplify our communications to improve their effectiveness and quality.

Each year we update active members with the *Member's Benefit Statement*, which provides a recent summary of each member's benefits, service and salary. Along with the statement, we provide summary financial information and recent plan updates in *Report to Members*. We also produce fact sheets, guides, forms and bulletins for active and retired members, and maintain online planning tools and information. Twice a year, we publish *After Class*, a newsletter for our retired members.

Pension seminars play an important role in preparing members for retirement. Now a new seminar package is available to help younger members understand the value of the plan. The plan presents over 60 seminars each year in a number of locations to make it easy for all members to attend.

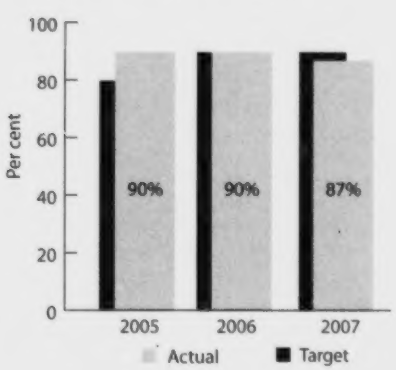
We embrace new technologies such as web publications and interactive online tools to help us communicate, and to help members stay connected to the plan. At the same time, we understand not all members have ready access to the Internet and so continue to provide paper communications.

Performance Measures and Targets

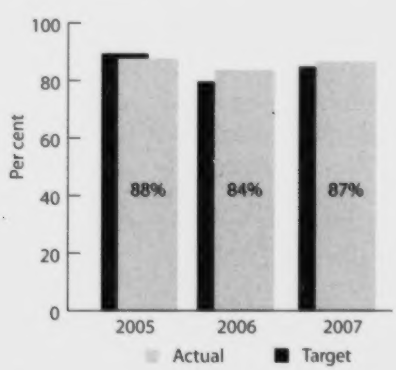
The Teachers' Pension Plan is dedicated to providing quality, cost-effective service to plan members. Through its service agreement with the Pension Corporation, the board approves service standards for the plan, including client satisfaction and service response times, and monitors performance against those standards. Regular surveys of plan members show that active and retired members give the Pension Corporation a high satisfaction rating for service quality.

Satisfaction for the year ended March 31

Longer-term Retired Members



Active Members

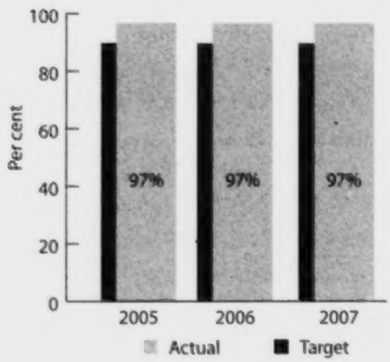


Member Services and Communications

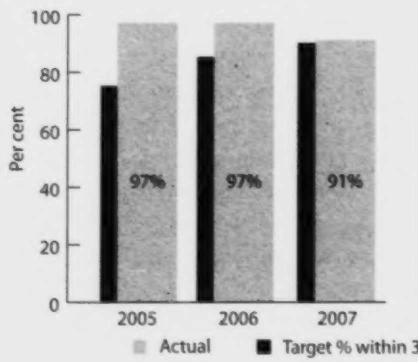
Recent retirees, asked to rate their experience of the retirement process, also give the corporation a high satisfaction rating.

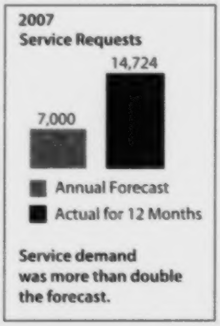
The corporation reports on its performance every March. For the year ended March 31, 2007, the corporation met the approved service targets with 98% of first pension payments on time and 98% of pension estimates provided within 30 days. With the closing of the plan's historical purchase of service window on March 31, 2007, the service target for purchase quotes was also met, despite significant volumes.

Recently Retired Members



Purchase Quotes on Time





Plan Participants

Membership in the Teachers' Pension Plan is open to all certified teachers (including teachers on call), principals and vice-principals, directors of instruction, superintendents, assistant superintendents, associated professionals and certified professionals who are appointed by a board of education in the British Columbia public school system, and to eligible employees of other employers approved by the board. New employees, including those employed in a less-than-half-time capacity, must be immediately enrolled in the Teachers' Pension Plan, and cannot opt out of enrolling in the plan. Employee contributions continue until the member terminates employment, retires, or accrues 35 years of pensionable service.

Participating employers are the school districts, the British Columbia College of Teachers, the British Columbia Principals' and Vice-Principals' Association, the British Columbia School Superintendents' Association, the British Columbia Teachers' Federation, the Francophone Education Authority, the Teacher Qualification Service (British Columbia), and the BC Education Leadership Council.

There are three categories of members in the Teachers' Pension Plan:

- **Active**—those who are currently contributing, or are receiving benefits from an approved salary continuance plan, or are on a leave of absence.
- **Inactive**—those who have terminated their employment and left contributions in the plan. They may or may not be eligible for a pension in the future. Those who are eligible for a pension in the future are known as vested and deferred members. If inactive members not entitled to a pension under the plan again become active members, they may become eligible for a pension by returning to work, recommencing contributions and accruing additional service in the Teachers' Pension Plan.
- **Retired**—those who are receiving a pension, including those who are receiving a disability pension.

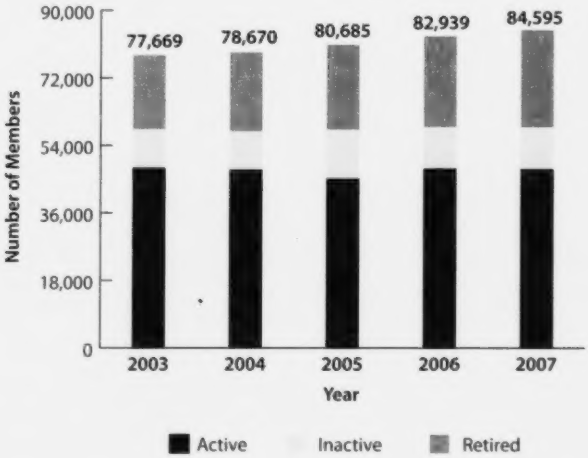
There are 47,446 active members in the plan, a decrease from 2006. The number of retired members increased by 7% to 25,859.

Number of Members

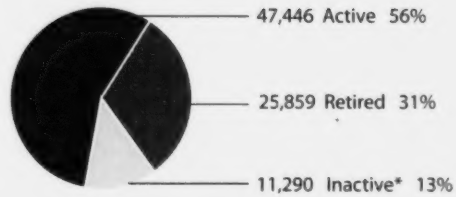
As at December 31	Active	Inactive, Terminated	Inactive, Vested and Deferred	Retired	Total
2007	**47,446**	**7,200**	**4,090**	**25,859**	**84,595**
2006	47,615	7,132	3,990	24,202	82,939
2005	47,250	6,983	3,816	22,636	80,685
2004	47,321	6,802	3,492	21,055	78,670
2003	47,878	6,757	3,301	19,733	77,669

Plan Participants

Number of Members
as at December 31

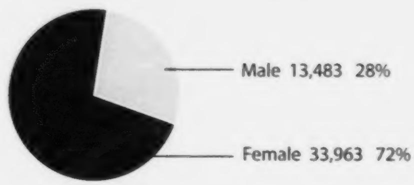


Membership Profile

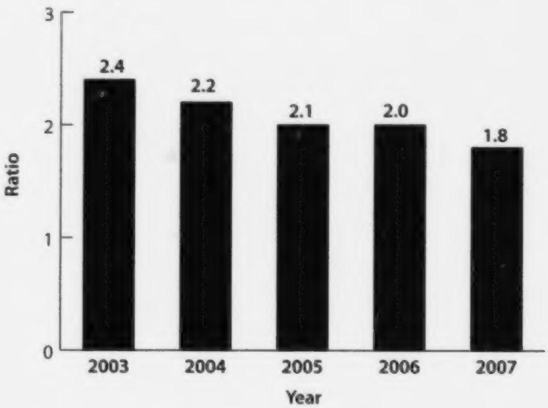


* Members no longer employed, but with money in the plan.

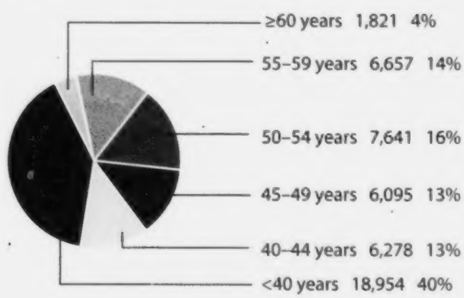
Active Member Profile



Ratio of Active Members to Retired Members
As at December 31



Age Profile of Active Members

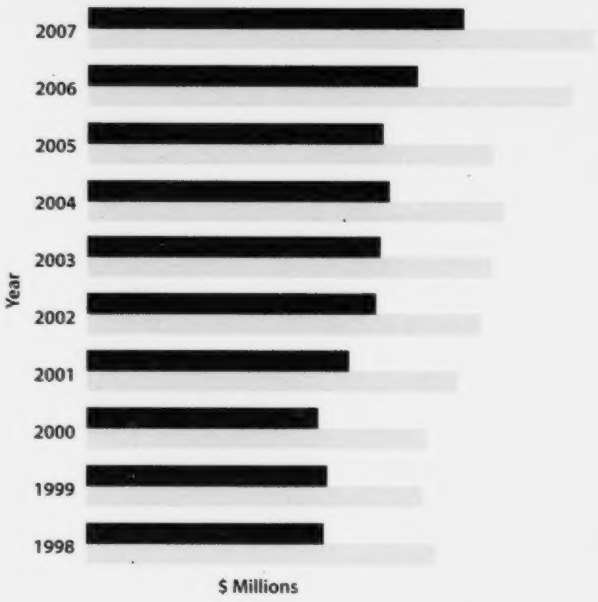


Contributions

Plan members contribute through automatic deductions from their salaries. Both plan members and employers pay contributions to fund future pension benefits. A member who terminates employment, retires, or reaches 35 years of pensionable service ceases contributions. For an active member's pensionable service over 35 years, the employer continues to contribute until the end of the calendar year in which the member reaches age 69. The contribution rates in the sidebar are applied to pensionable salaries.

Contributions (including purchases of service)
Year ended December 31
$ Millions

Member	Employer	Year
228.1	**306.9**	**2007**
200.1	294.4*	**2006**
179.3	246.0	**2005**
183.2	252.7	**2004**
177.8	245.6	**2003**
175.2	238.9	**2002**
159.0	225.2	**2001**
140.3**	205.9	**2000**
146.0	204.4	**1999**
144.1	212.0***	**1998**



* Includes a one time $20 million contribution by the provincial government to the Inflation Adjustment Account.
** Member contributions declined in 2000 as a result of decreased purchases of service.
*** 1998 employer contributions includes $9.69 million early retirement funding from the province.

Current Contribution rates:
(effective July 1, 2007)

Member

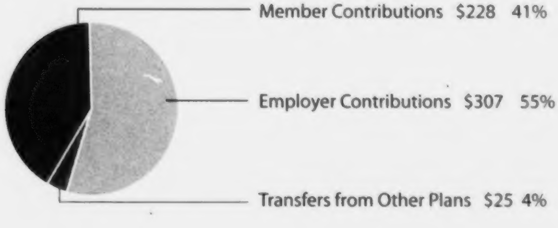
- 9.16% of pensionable salary up to and including the YMPE,* and
- 10.66% of pensionable salary in excess of the YMPE.*

Employer

- 12.29% of pensionable salary up to and including the YMPE,* and
- 13.79% of pensionable salary in excess of the YMPE.*

* Year's Maximum Pensionable Earnings (YMPE) is the limit to earnings on which Canada Pension Plan contributions are made. The 2007 YMPE was $43,700, and will increase to $44,900 in 2008.

Contribution Revenue
$ Millions



Plan Benefits

Plan benefits are defined by the pension plan rules made under the authority of the Joint Trust Agreement.

Basic Pension (guaranteed)

The basic pension benefit is defined, meaning the pension is based on how many pensionable years the member has accrued in the plan, the average of the best five years of salary (not necessarily the last five years) and age at retirement. The pension is not based on contributions to the plan, nor is it based on the investment performance of the plan's assets. The advantage of a defined benefit plan is that the pension is predictable. The plan provides entitlement to a pension benefit after two years of contributory service. The plan also provides survivor and disability benefits.

In 2007, the plan provided pensions to 25,859 retired members, an increase of 7% from the previous year.

Indexing (not guaranteed)

Indexing is a non-guaranteed cost-of-living supplement to the basic pension. It is paid only if there is enough money in the Inflation Adjustment Account (IAA), which is funded by member and employer contributions.

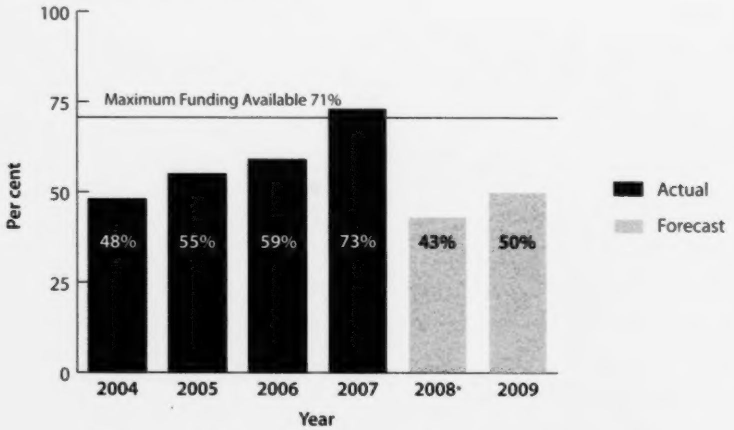
On January 1, 2007, retired members received a full Consumer Price Index (CPI) increase of 0.7%. On January 1, 2008, retired members will receive a full CPI increase of 2.5%. Inflation increases to the pension may be provided each year based on changes in the CPI. (See Note 7b to the Financial Statements). Indexing, once granted, is guaranteed. The board monitors the plan's ability to continue to provide full indexing.

Post-retirement Group Health Benefits (non-pension, not guaranteed)

Group benefits (extended health and dental) are not guaranteed. They are funded by a limited portion of employer contributions that would otherwise go to the IAA, and through premiums paid by retired members. The board monitors the plan's ability to continue providing non-guaranteed post-retirement group health benefits. As of July 31, 2007, the board stopped subsidizing dental benefits to keep overall costs for group benefits within the available funding.

Plan Benefits

Group Benefit Costs as a Percentage of Employer IAA Contributions



* The forecasted decline in 2008 is the result of a voluntary dental plan replacing the subsidized benefit.

Pensions 1998–2007

	New Pensions During Year	Pension Terminations	In Force at End of Year	$ Millions Basic Pensions Paid	Inflation Supplements Paid	Total Pensions Paid
2007	**2,027**	**370**	**25,859**	**$576.9**	**$112.3**	**$689.2**
2006	1,871	305	24,202	526.5	112.5	639.0
2005	1,805	224	22,636	479.3	97.5	576.8
2004	1,598	276	21,055	437.5	92.2	529.7
2003	1,490	292	19,733	398.8	85.2	484.0
2002	1,542	312	18,535	361.6	78.3	439.9
2001	1,230	265	17,305	327.6	71.4	399.0
2000	831	291	16,340	305.8	64.2	370.0
1999	1,673	262	15,800	277.4	58.4	335.8
1998	1,370	291	14,389	242.2	58.8	301.2

New Pensions, by Type 1998–2007

	Regular*	Death*	Disability	LTD to Pension	Deferred	Total
2007	**1,819**	**24**	**–**	**116**	**68**	**2,027**
2006	1,661	22	–	108	80	1,871
2005	1,596	18	–	119	72	1,805
2004	1,407	19	1	108	63	1,598
2003	1,301	28	1	107	53	1,490
2002	1,381	24	1	73	63	1,542
2001	1,097	22	–	61	50	1,230
2000	717	13	3	67	31	831
1999	1,494	9	3	83	84	1,673
1998	1,207	19	5	54	85	1,370

* New pensions do not include any pension continued to a beneficiary upon the death of a retired member.

Average Value of New Regular Pensions January 1, 2007 to December 31, 2007

Subdivided by years of service

Years of Service*	Number of New Regular Pensions	Average Annual Salary Base	Average Annual Pension	Average Present Value of Pensions	Total Present Value of Pensions ($ Millions)
<10 years	84	$ 54,000	$ 4,800	$ 75,000	6.3
10–14	123	61,000	11,800	196,000	24.1
15–19	209	65,000	17,800	297,000	62.1
20–24	230	65,000	22,800	388,000	89.2
25–29	356	68,000	29,700	511,000	181.9
30–34	722	71,000	36,800	659,000	475.8
35 years	95	73,000	41,000	683,000	64.9
Total	1,819	n/a	n/a	n/a	$904.3
Average of All Pensions	n/a	$68,000	$28,500	$497,000	n/a

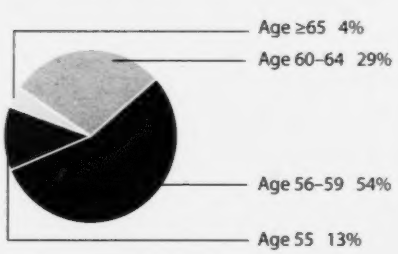
* Years of service includes service transferred from other plans.

New Regular Pensions, by Age at Retirement

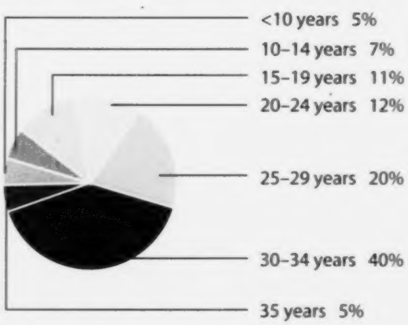
Subdivided by years of service and age at retirement

Years of Service	55	56–59	60–64	≥ 65	Total
<10 years	10	22	38	14	84
10–14	24	45	42	12	123
15–19	35	77	83	14	209
20–24	43	89	86	12	230
25–29	46	176	123	11	356
30–34	66	532	115	9	722
35 years	3	38	45	9	95
Total	227	979	532	81	1,819
Average service years	23	27	23	19	26
Average age	–	–	–	–	58

Percentage of New Regular Pensions
by age at retirement



Percentage of New Regular Pensions
by years of service



Termination and Refund Benefits

A terminating member who is eligible for a pension but has not yet reached age 55 may choose:

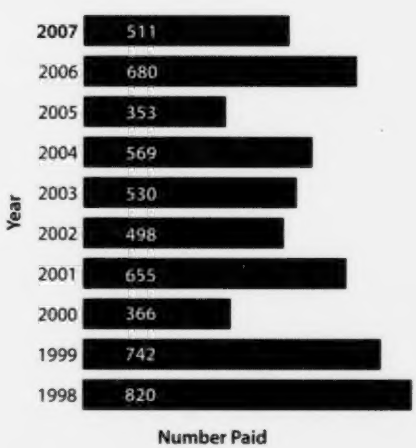
- a deferred pension payable at age 55, or
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or a similar tax-sheltered plan.

A terminating member may also choose to leave money on deposit in the plan in anticipation of returning to work and accruing future pension entitlements. A member under age 60 with less than two years of contributory service may also choose a refund of contributions with interest.

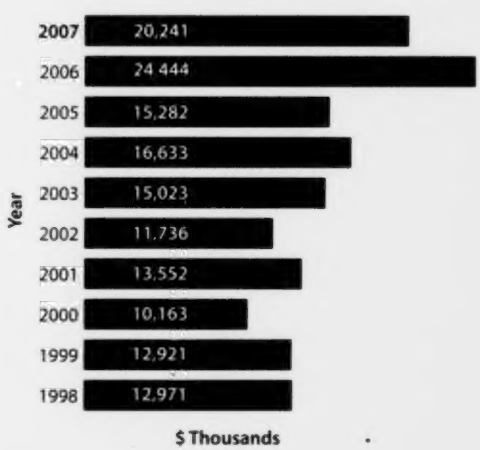
Interest compounds annually and is credited to the member's contribution balance. This balance is included in the annual *Member's Benefit Statement*. The rate of interest is governed by the applicable pension legislation and is based on average five-year bank personal term deposit rates (2007: 3.05%; 2006: 2.90%). Note, these rates do not reflect the actual earnings of the pension fund.

The number and value of termination benefits paid can vary significantly from year to year, depending on the employment environment, the type of benefit paid and the member's entitlement. The number and value of termination and refund benefits paid decreased compared to last year.

Number of Termination and Refund Benefits Paid



Value of Termination and Refund Benefits Paid



Termination benefits paid include refunds of contributions and commuted value payments; deferred pensions are included in pension statistics.

Transferring Service

Transfer agreements allow pension plan members to carry pension rights from one plan to another. Members may carry their years of pensionable service and contributions to a new plan at a different place of employment if the new plan has an agreement with the Teachers' Pension Plan. In order to transfer service, the member must have left contributions on deposit or reinstated service. Service may not always be transferred on a one-to-one basis, but depends on differences in plan benefits.

Members who have made contributions to another pension plan in Canada may want to inquire about transfer agreements.

An interprovincial reciprocal transfer agreement (effective January 1, 2002), allows members of teachers' pension plans throughout Canada to transfer their service between plans. The BC Public Sector Pension Transfer Agreement (2004) allows transfers between the Teachers' Pension Plan and the College, Municipal and Public Service pension plans and other signatories. The National Transfer Agreement allows transfers between the Teachers' Pension Plan and other public service defined benefit pension plans throughout Canada. A transfer agreement is also in place with the Government of Canada.

There were 631 reciprocal transfers-in from other pension plans and 326 transfers-out. The transfers-in totalled $24.7 million; transfers-out totalled $11.9 million. Transfers-in were 78% from BC public sector plans and 22% from other provinces. Transfers-out were 71% to BC public sector plans, and 29% to out-of-province plans.

Purchase of Additional Service

Members of the plan may be able to increase their future pension benefits by purchasing periods of past service. Purchasing service means paying for periods of employment that have not already been counted as service with the plan. This service may include:

- leaves of absence (maternity, parental, compassionate, general or other leave),
- arrears contributions (not enrolled, but eligible to buy back missed contributions),
- other service (employment service before becoming a regular contributor), or
- reinstatements (contributions previously refunded from the plan).

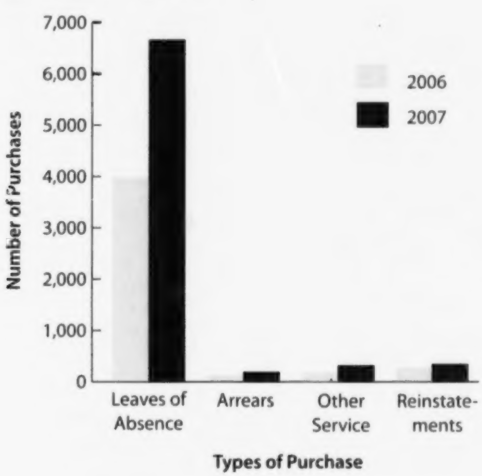
Purchase of service rules changed on April 1, 2002. There was a deadline for active members to apply to purchase historical periods of service (i.e., those ending before March 31, 2002) by March 31, 2007. This deadline also applied to reinstating refunds of pension contributions. As of April 1, 2007, active members may only purchase periods of service that occurred during the previous five years, provided the member applies to purchase prior to terminating employment. In 2007, a deadline of June 30, 2009, was set for members who had returned to the plan within the previous five years, to reinstate refunds of pension contributions. More information about purchasing service, including costs, is available on the plan website at **tpp.pensionsbc.ca**.

The number of purchases of additional service increased 64% from last year. The value of the purchases increased 47%.

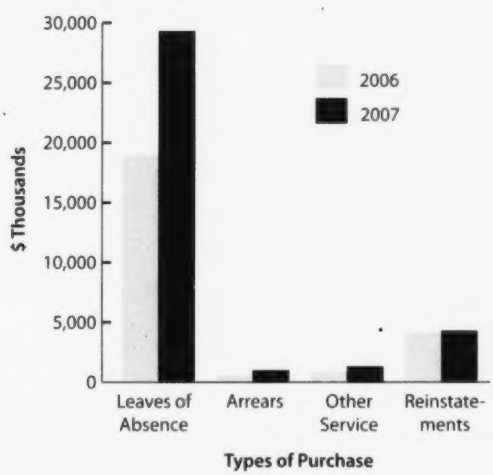
Member and Employer Purchases of Additional Service

Year ended December 31

Number of Purchases



Value of Purchases



Investments

Market Review

One of the major responsibilities of the board is to oversee the investment of approximately $16 billion in assets for the long-term benefit of the plan members. The most important issue for any pension plan is long-term results, and the board's goal is to achieve consistent and steady performance over the longer term based on a disciplined approach and prudent decision making.

The board reviews its *Statement of Investment Policies and Procedures* (SIPP) annually, approves the long-term asset mix policy for the investment of assets and oversees the management of those assets through the board's investment management agent, the British Columbia Investment Management Corporation (bcIMC).

Diversification of investments is a key principle in our investment policy. Investments are held in a range of asset types (e.g., bonds, equities, real estate), industry sectors and global markets.

Report on 2007 Investment Results

After four consecutive years of double-digit returns, financial market turmoil resulted in the Basic and Inflation accounts producing modest results in 2007. The Basic Account realized a 4.0% return on its investments, while the Inflation Account returned 4.0%. The board is pleased to report that both accounts exceeded their benchmark returns of 2.0%.

Canadian equities and real estate made the largest positive contributions to the plan's returns in 2007, although their returns were lower than in the preceding four years.

Real estate continued to out-perform other asset classes, with the domestic Realpool returning 21.3% in 2007.

Canadian equities held by the Basic and Inflation accounts generated returns of 9.8%. The plan participates in four Canadian equity pools whose returns ranged from 4.0% to 11.3%.

Fixed income also provided positive returns in 2007, ranging from 1.8% to 4.6%. Returns from short-term investments and longer-term government bonds benefited from turmoil in credit markets that began in the summer.

Non-North American stocks were down across the board in 2007, with a key factor being the appreciation of the Canadian dollar against the major currencies. The plan participates in six international equity pools whose returns

ranged between -0.2% to -6.8%. The Basic and Inflation accounts realized total returns on non-North American holdings of -4.7% and -4.6%, respectively.

The Canadian dollar appreciated sharply in 2007, rising nearly 18% against the U.S. dollar and eroding the value of U.S. assets held by the plan. Hedging of some U.S. dollar exposure back into Canadian dollars added considerable value, turning the total return on U.S. equities from -10.7% before hedging to -3.7% after hedging. Returns on the seven U.S. equity pools in which the plan participates ranged from -7.9% on the U.S. Large Cap Active pool to -17.5% on the U.S. Small Cap Active pool.

The Basic Account's 4.0% return exceeded the market benchmark of 2.0%. This added value can be attributed to tactical decisions made by the board's investment agent, the British Columbia Investment Management Corporation.

In addition to U.S. dollar hedging, which added 1.2 percentage points to the plan's total return, tactical decisions that contributed to out-performance of the plan's benchmark included overweighting of short-term fixed income securities and underweighting of U.S. equities, relative to the strategic asset mix targets.

Basic Account Investment Asset Mix and Performance

as at December 31, 2007

Asset Class	Approved Range (%)	Actual Assets (%)	Rate of Return (%)	Performance Benchmark* (%)
Fixed Income	**20–40**			
Short-term**	0–10	3.0	4.5	4.5
Mortgages	0–10	4.8	5.3	5.4
Bonds	10–25	17.1	3.6	3.9
Real Return Bonds	0–10	4.0	2.3	1.6
Equity	**60–80**			
Canadian Equities	10–25	16.3	9.8	10.2
U.S. Equities	10–25	15.1	(3.7)	(10.7)
International Equities	10–25	18.9	(4.7)	(4.2)
Real Estate	8–15	15.2	21.3	6.4
Private Placements	0–10	5.6	***	***

* Benchmarks are standards to compare against actual investment returns.

** Short-term includes government bonds with one- to five-year terms and money market funds.

*** Annual rate of return not applicable.

Outlook

Last year's report on investment noted that "History suggests that the high recent investment returns are unlikely to continue." These words were prophetic, in view of 2007's investment returns. However, investors with long-term horizons should recognize that neither the low returns of 2007 nor the double-digit annual returns from 2003 through 2006 are the norm.

The investment environment in 2008 will be challenging on a number of fronts:

- The U.S. economy may experience a recession.
- While global growth is expected to slow from close to 5% last year to around 4% in 2008, the impact of a U.S. downturn in a world economy increasingly influenced by new markets such as China and India is difficult to judge.
- Credit markets remain in turmoil, as the repercussions of the sub-prime mortgage problems caused the price of risky assets to fall sharply.
- Banks and other financial intermediaries whose job is to match savers with investors are now much more reluctant to extend credit, which is the lifeblood of modern economies.
- Commodity prices are surging, making food and a wide range of other products more costly, perhaps stoking inflation and slowing economic growth at the same time.

All this means that 2008 will be a volatile year for investments, even if the most negative scenarios do not become reality. On the plus side, periods when markets are volatile and risk is being re-evaluated and re-priced are often the best times to acquire good long-term investments at favourable prices.

Investment Portfolio

Investments consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly based on the fair market value of the underlying assets. In the table below, all portfolios are pooled, except Real Return Bonds, which are directly held.

Investments Held as at December 31, 2007

	Market Value ($ Thousands)	Asset Mix Market Value (%)
Short-term		
Money Market	151,554	0.9
Bonds (1–5 years)	386,195	2.4
	537,749	3.3
Bonds		
Universe	2,141,851	13.0
Long-term	664,259	4.0
Real Return	639,197	3.9
	3,445,307	20.9
Canadian Equities		
Indexed	1,258,507	7.6
Actively Managed	1,408,235	8.6
	2,666,742	16.2
U.S. Equities		
Indexed	1,575,345	9.5
Actively Managed	900,604	5.5
	2,475,949	15.0
International Equities		
Asia	580,877	3.5
Europe	1,006,128	6.1
Europe, Australia and the Far East	1,516,158	9.2
	3,103,163	18.8
Real Estate, Mortgages, Private Placements and Foreign Currency		
Real Estate	2,496,788	15.1
Mortgages	787,852	4.8
Private Placements	939,572	5.7
Foreign Currency	27,793	0.2
	4,252,005	25.8
Total Investments	**16,480,915**	**100.0%**
2006 Comparison	16,008,435	

For further information on the investment portfolio, visit the bcIMC website at: www.bcIMC.com

Investments Held as at December 31, 2007

(Underlying investments are in pooled portfolios.)

Canadian Equities

Company	Market Value ($ Thousands)	% of Total Canadian Equities
Suncor Energy Inc	$ 127,415	4.8
Manulife Financial	116,273	4.3
Royal Bank of Canada	114,132	4.3
Encana Corporation	103,581	3.9
Toronto Dominion Bank	97,726	3.7
Bank of Nova Scotia	93,950	3.5
Research In Motion	83,849	3.1
Potash Corp of Sask	76,761	2.9
Power Corp of Canada	71,883	2.7
Petro Canada	61,160	2.3
Total Top Ten	**$ 946,730**	**35.5**
Total Canadian Equities	**$ 2,666,742**	**100.0**

U.S Equities

Company	Market Value ($ Thousands)	% of Total U.S. Equities
Exxon Mobil Corp	$ 73,487	3.0
General Electric	66,751	2.7
Microsoft Corp	52,353	2.1
AT&T Inc	51,841	2.1
Procter & Gamble	39,645	1.6
Bank of America	33,812	1.4
Chevron Corp	30,870	1.2
Altria Group Inc	30,400	1.2
Intel Corp	29,189	1.2
Johnson & Johnson	29,004	1.2
Total Top Ten	**$ 437,352**	**17.7**
Total U.S. Equities	**$ 2,475,949**	**100.0**

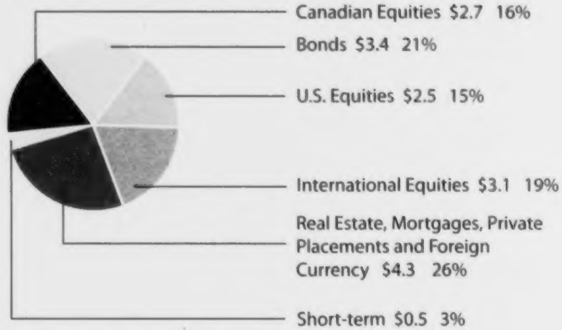
International Equities

Company	Market Value ($ Thousands)	% of Total International Equities
Royal Dutch Shell	$ 56,492	1.8
Total	46,148	1.5
Vodafone Group	34,825	1.1
Nestle SA	31,600	1.0
E.ON AG	30,658	1.0
BHP Billiton Ltd	30,054	1.0
Rio Tinto Limited	28,375	0.9
BP PLC	28,355	0.9
ENI	27,948	0.9
HSBC Holdings	27,412	0.9
Total Top Ten	**$ 341,867**	**11.0**
Total International Equities	**$ 3,103,163**	**100.0**

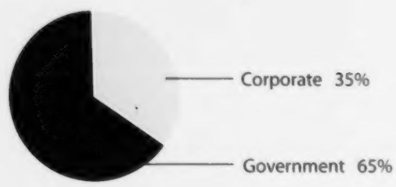
Investments Held as at December 31, 2007

Investment Holdings (Market Value)

$ Billions

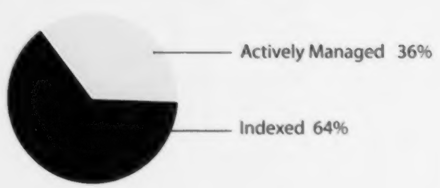


Bonds (Market Value)

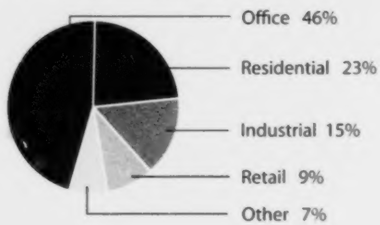


Canadian Equities (Market Value)

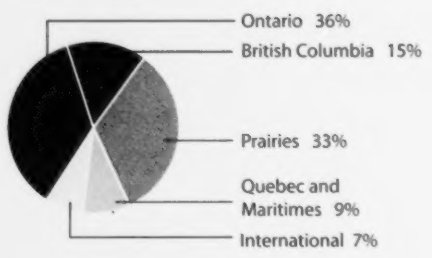
U.S. Equities (Market Value)



Domestic Real Estate, by Type



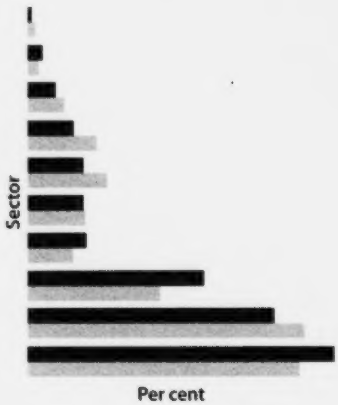
Real Estate, by Location



Investments Held as at December 31, 2007

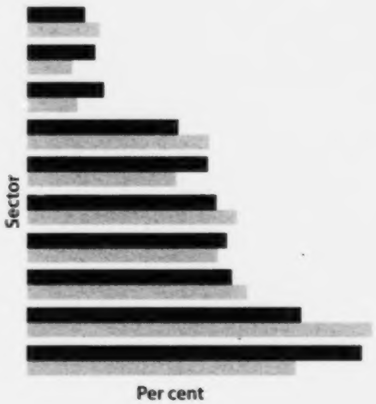
Canadian Equities, by Sector

	Indexed (%)	Actively Managed (%)
Health Care	0.4	0.8
Utilities	1.5	1.1
Consumer Staples	2.8	3.7
Consumer Discretionary	4.6	7.0
Industrials	5.5	8.0
Information Technology	5.6	5.8
Telecommunication Services	5.9	4.7
Materials	17.8	13.4
Energy	24.9	28.0
Financial Services	31.0	27.5
	100.0	100.0



U.S. Equities, by Sector

	Indexed (%)	Actively Managed (%)
Materials	3.3	4.2
Utilities	3.9	2.6
Telecommunication Services	4.4	2.9
Consumer Discretionary	8.7	10.5
Consumer Staples	10.4	8.6
Energy	10.9	12.1
Industrials	11.5	11.0
Health Care	11.8	12.7
Information Technology	15.8	19.9
Financial Services	19.3	15.5
	100.0	100.0



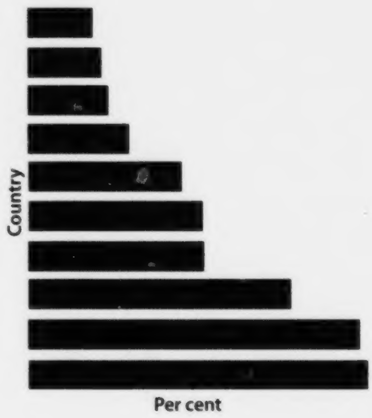
Indexed: A portfolio of securities in approximately the same proportion as a public market index (e.g., Standard & Poor's/Toronto Stock Exchange Composite).

Actively Managed: A portfolio of securities that is designed to outperform a public market index.

Investments Held as at December 31, 2007

International Equities, by Country (%)

Spain	3.6
Italy	4.1
Australia	4.5
Switzerland	5.7
Emerging Markets	8.7
Germany	9.9
France	10.0
Japan	15.0
Other Countries	19.0
United Kingdom	19.5
	100.0



Investment Performance

Market Value Rates of Return for the Year Ended December 31, 2007

	Basic Account (%)	Inflation Adjustment Account (%)	Basic Account Performance Benchmarks* (%)	
Annual Rates				
2007	**4.0**	**4.0**	**2.0**	
2006	16.2	16.3	13.3	
2005	12.9	13.3	11.6	
2004	10.4	10.8	10.5	
2003	13.0	14.5	14.5	
Five-year Annualized Rates**				
2007	**11.2**	**11.7**	**10.3**	
2006	9.1	10.1	8.6	
Ten-year Annualized Rates				
2007	**7.7**	**8.2**	**7.2**	
2006	8.8	9.2	8.5	
2007 Annual Rates by Investment Category				**Basic Account Performance Benchmarks***
Short-term				
Money Market	4.6	4.6	4.4	SCI 91 Day T-Bill
Bonds	4.4	4.4	4.5	SCI Short-term Government Bond
Bonds				
Universe	3.3	3.3	3.7	SCI Universe Bond
Long-term	4.4	4.4	4.4	SCI Government Long-term Bond
Real Return	2.3	1.8	1.6	SCI Real Return Bond
Canadian Equities				
Actively Managed	8.7	8.7	10.2	Active Canadian Benchmark
Indexed	10.6	10.6	10.2	S&P/TSX Equity
Enhanced	11.3	11.3	10.2	S&P/TSX Equity
Strategic Infrastructure	4.0	4.0	10.2	S&P/TSX Equity
U.S. Equities				
Actively Managed	(9.4)	(9.4)	(10.3)	R 1000
Indexed	(10.6)	(10.6)	(10.5)	S&P 500
Value	(13.4)	(13.4)	(13.5)	S&P Citigroup value
Enhanced	(10.5)	(10.5)	(10.5)	R1000/S&P 500
International Equities				
Asia	(0.2)	(0.2)	(2.1)	MSCI Pacific Net
Europe	(4.7)	(4.7)	(3.4)	MSCI Europe Net
Europe, Australia and Far East	(6.2)	(6.2)	(5.7)	MSCI Europe, Australasia, Far East Net
Real Estate	21.3	21.3	6.4	CPI + 4%
Mortgages				
Fixed-term	3.9	3.9	5.1	SCI Short-term Bond + 1%
Construction	7.1	7.1	5.7	SCI One-year T-Bill + 1%
Specialty	11.6	11.6	7.3	SCI One-year T-Bill + 2.5%

* Benchmarks are standards to compare against actual investment returns.

** The five-year annualized rate of the Basic Account is the net earned rate of the fund. An annualized rate means the rate for a five or ten-year period converted into the equivalent annual rate.

Performance Benchmark Indices Abbreviations

CPI = Consumer Price Index
MSCI = Morgan Stanley Capital International
R = Russell
SCI = Scotia Capital Inc.
S&P = Standard & Poor's
S&P/TSX = Standard & Poor's/Toronto Stock Exchange

(Source of annual rates: British Columbia Investment Management Corporation)

Audit Committee

Membership on the committee includes two nominees from each of the boards of the College, Municipal, Public Service, and Teachers' pension plans. All nominees must be ratified by all the boards. The committee must include at least two trustees who understand generally accepted accounting principles (GAAP), internal controls, and audit committee functions. The committee must meet at least three times a year. In addition to its role of financial oversight through monitoring and reporting, the committee also evaluates its own performance annually through an established procedure.

The mandate of the Audit Committee is to act on behalf of, and to assist the board, to provide for:

- a timely and cost-effective system of accounting and reporting
- financial statements conforming with generally accepted accounting principles
- an independent audit of the financial statements
- an annual report with audited financial statements

The committee will accomplish its mandate to provide financial oversight by:

- monitoring and reporting to the boards on the integrity of reporting, internal controls, and compliance
- monitoring and reporting on the independence and performance of the external auditors
- monitoring and reporting on risk management as it affects financial reporting
- recommending the selection and compensation of external auditors
- addressing any matter referred to the committee by one or more of the four boards

Financial Health

The Teachers' Pension Plan is financially sound. The fund holds a diversified portfolio of debt and equity investments that offer consistent and steady performance over the long term.

Every three years an independent actuary assesses the financial health of the plan and the adequacy of the contribution rates for funding the plan. At the most recent actuarial valuation as at December 31, 2005, the Basic Account had an unfunded liability for basic pension benefits of $904 million. The funded portion of the liability is more than 94% of total liabilities for basic pension benefits. An unfunded liability means that there is a shortfall between benefits promised and assets available to pay for these benefits, whereas a surplus means there are more than enough funds to meet the basic benefits.

On the recommendation of the actuary, the board determined that an increase in contribution rates was necessary for the pension plan to maintain the pension promise. Consequently, plan member and employer contributions each increased by 1.61% of salaries on July 1, 2007, to pay down this unfunded liability over the ensuing 15 year period. (See the "Contributions" section on page 9 for contribution rate information.)

The next valuation will be as at December 31, 2008.

Actuarial Valuation History as at December 31

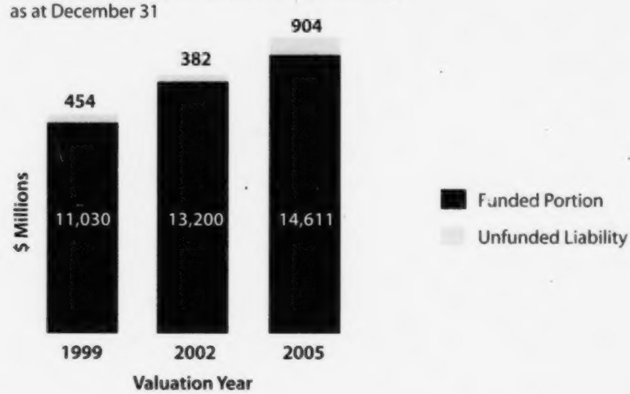
$ Millions

	Basic Pension Benefits Unfunded Liability		
	2005	2002	1999
For Funding Purposes*	$904.1	$381.8	$454.4
Ratio of Unfunded Liability to Covered Payroll*	38%	17%	21%
For Accounting Purposes to December 31	$1,238.1	$551.8	$494.0

* Assuming contributions continue at rates in effect at the valuation date.

Funding of the Total Basic Benefit Liability

as at December 31



Five Year Financial Summary

$ Thousands

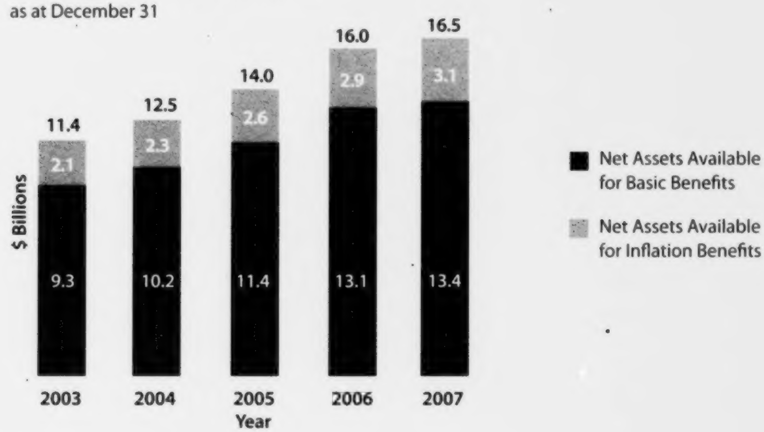
For the year ended December 31	2007	2006	2005	2004	2003
Increase in Assets					
Total Investment Income	$ 661,737	2,262,231	$1,632,275	$1,200,821	$1,341,143
Contributions					
Members	228,112	200,156	179,258	183,215	177,820
Employers	306,868	274,358	245,969	252,659	245,606
Provincial Government	-	20,000	-	-	-
Transfers from Other Plans	24,737	30,833	23,281	27,300	32,581
Total Increase in Assets	1,221,454	2,787,578	2,080,783	1,663,995	1,797,150
Decrease in Assets					
Pension Benefits	689,224	639,031	576,834	529,672	484,022
Termination and Refund Benefits	20,241	24,443	15,282	16,633	15,023
Transfers to Other Plans	11,916	9,141	10,023	15,325	18,508
Retired Member Group Benefits	20,329	15,680	13,361	12,019	13,138
Investment and Administration Costs*	33,696	25,640	22,803	20,073	20,540
Total Decrease in Assets	775,406	713,935	638,303	593,722	551,231
Increase in Net Assets	446,048	2,073,643	1,442,480	1,070,273	1,245,919
Net Assets Available for Benefits at Beginning of Year	$ 16,034,200	$ 13,960,557	$12,518,077	$11,447,804	$10,201,885
Net Assets Available for Benefits at End of Year	$ 16,480,248	$ 16,034,200	$13,960,557	$12,518,077	$11,447,804

Investment and Administration Costs*					
	As a Percentage of Net Assets				
Investment Management*	0.26%	0.20%	0.17%	0.15%	0.15%
Benefit Administration	0.05%	0.05%	0.06%	0.05%	0.07%

* External investment management costs incurred in the investment pooled funds by wholly owned corporations of $16.0 million (2006—$13.8 million; 2005—$8.4 million; 2004—$5.5 million; 2003—$4.1 million) are not included in investment and administration costs, but are included in investment management costs as a percentage of net assets. These costs have been restated for comparative purposes.

Net Assets Available for Benefits

as at December 31



Financial Statements

PENSION
CORPORATION

Executive Offices

Mailing Address:
PO Box 9460
Victoria BC
V8W 9V8

Location:
2995 Jutland Road
Victoria BC
V8T 5J9

Phone:
250 387-8201
1 800 663-8823
Fax:
250 953-0429

TEACHERS' PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Teachers' Pension Plan (Plan) were prepared by the British Columbia Pension Corporation (Corporation), the administrative agent for the Teachers' Pension Board of Trustees (Board) of the Plan. The Board is responsible for having annual financial statements prepared in accordance with Canadian generally accepted accounting principles. The Corporation prepares the financial statements on the Board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgments and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Teachers' Pension Plan Annual Report conforms to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Ltd. has been appointed the independent consulting actuary to the Plan by the Board. The role of the actuary is to complete an actuarial valuation of the Plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of PricewaterhouseCoopers LLP has been appointed the independent auditor to the Plan by the Board. The role of the auditor is to perform an independent audit of the financial statements of the Plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the Auditors' Report attached to these financial statements.

RON MILLARD, FCGA
Director, Finance
British Columbia Pension Corporation

SANDRA LENZ, CA
Chief Financial Officer
British Columbia Pension Corporation

May 12, 2008

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
PricewaterhouseCoopers Place
250 Howe Street, Suite 700
Vancouver, British Columbia
Canada V6C 3S7
Telephone +1 604 806 7000
Facsimile +1 604 806 7806

May 12, 2008

Auditors' Report

To the Members of the
Teachers' Pension Plan

We have audited the statement of net assets available for benefits of the **Teachers' Pension Plan** as at December 31, 2007 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the board of trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as at December 31, 2007 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2006 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated April 10, 2007.

PricewaterhouseCoopers LLP

Chartered Accountants

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

TEACHERS' PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

As at December 31	2007	2006
ASSETS		
Investments at fair value (Note 3)	$16,480,915	$16,008,435
Receivables		
Members' contributions	14,252	13,002
Employers' contributions	19,440	19,268
Accrued investment income	1,704	1,664
Due from sale of investments	1,999	8,930
	37,395	42,864
Prepaid expenses	1,297	1,432
Cash	2,054	5,291
Total Assets	$16,521,661	$16,058,022
LIABILITIES		
Payable for purchase of investments	36,519	8,930
Accounts payable and accrued expenses	4,894	14,892
Total Liabilities	41,413	23,822
NET ASSETS AVAILABLE FOR BENEFITS	$16,480,248	$16,034,200

All accompanying notes are an integral part of these financial statements including:

- Actuarial Valuation of the Basic Account for Funding Purposes (Note 7)
- Actuarial Valuation of the Basic Account for Accounting Purposes (Note 8)
- Commitments (Note 11)

Gerry Tiede
Chair, Teachers' Pension Board of Trustees

Lucas Corwin
Trustee,
Teachers' Pension Board of Trustees

Elizabeth MacKenzie
Trustee,
Teachers' Pension Board of Trustees

TEACHERS' PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

For the year ended December 31	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals 2007	Totals 2006
INCREASE IN ASSETS					
Investment income (Note 4)	$ 542,794	$ 118,943	$ -	$ 661,737	$ 2,262,231
Contributions (Note 5)					
Members'	175,649	52,456	7	228,112	200,156
Employers'	277,046	8,813	21,009	306,868	274,358
Provincial government	-	-	-	-	20,000
	452,695	61,269	21,016	534,980	494,514
Transfers from other plans	18,789	5,948	-	24,737	30,833
Total Increase in Assets	1,014,278	186,160	21,016	1,221,454	2,787,578
DECREASE IN ASSETS					
Pension benefits	576,750	-	179	576,929	526,503
Indexing supplements	112,279	-	16	112,295	112,528
	689,029	-	195	689,224	639,031
Termination and refund benefits	12,857	7,384	-	20,241	24,443
Transfers to other plans	9,183	2,733	-	11,916	9,141
Retired member group benefits (Note 10)	-	-	20,329	20,329	15,680
Investment and Administration costs (Note 9)	28,496	4,708	492	33,696	25,640
Total Decrease in Assets	739,565	14,825	21,016	775,406	713,935
INCREASE IN NET ASSETS BEFORE TRANSFERS	274,713	171,335	-	446,048	2,073,643
Account transfers (Note 6)	44,902	(44,902)	-	-	-
INCREASE IN NET ASSETS	319,615	126,433	-	446,048	2,073,643
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	13,113,999	2,920,201	-	16,034,200	13,960,557
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 13,433,614	$ 3,046,634	$ -	$ 16,480,248	$ 16,034,200

Supplemental Benefits Account (Note 10)

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN

The Teachers' Pension Plan (Plan) is a jointly trusteed pension plan governed by a Joint Trust Agreement (Agreement). Joint trusteeship was established on April 5, 2001. The partners to the Agreement are the provincial government of British Columbia and the B.C. Teachers' Federation (Partners). The Agreement describes the composition, appointment, powers, functions and duties of the Teachers' Pension Board of Trustees (Board) and provides the authority for the Board to make Plan rules. The following brief description of the Plan is provided for general information only. For more information please refer to the Agreement and the Plan rules.

a) General

The Plan is open to all certified teachers (including teachers-on-call), principals and vice-principals, superintendents, assistant superintendents, associated professionals and certified professionals who are appointed by a board of school trustees in the British Columbia public school system.

b) Roles and Responsibilities

The Board of Trustees
The Partners are responsible for directing amendments to the Plan, if certain conditions are met, and for resolving trustee disputes. The Board consists of up to eleven members. The Partners appoint ten trustees representing Plan members and Plan employers. The Chair and the Vice Chair are appointed by the other trustees. The Board is fully responsible for the management of the Plan, including investment of the assets and administration of the Plan. The Board may amend the Plan rules as long as changes can be funded by pension fund surpluses or are cost-neutral to the Plan (subject to transitional funding provisions in Note 7). Unless required to ensure compliance with regulatory enactments applicable to the Plan, Plan rule changes that result in contribution rate changes can only be initiated by the Partners.

British Columbia Pension Corporation (Pension Corporation)
The Pension Corporation provides benefit administration services as an agent of the Board.

British Columbia Investment Management Corporation (bcIMC)
bcIMC provides investment management services as an agent of the Board.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (continued)

c) Contributions

Basic Account
Members contribute to the Basic Account 7.16% (5.55% up to June 30, 2007) of salaries up to and including the Canada Pension Plan's Maximum Pensionable Earnings (YMPE) ($43,700 in 2007) and 8.66% (7.05% up to June 30, 2007) of salaries over the YMPE, less amounts allocated to the Supplemental Benefits Account (Notes 5, 7 and 10).

Employers contribute to the Basic Account 11.16% (9.55% up to June 30, 2007) of salaries up to and including the YMPE and 12.66% (11.05% up to June 30, 2007) of salaries over the YMPE, less amounts allocated to the Supplemental Benefits Account (Notes 5, 7 and 10).

Inflation Adjustment Account
Members contribute 2% of salaries to the Inflation Adjustment Account. Employers contribute 1.13% of salaries to the Inflation Adjustment Account, less amounts allocated to the Supplemental Benefits Account (Notes 5 and 10).

d) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:
- at age 65;
- at age 60, with at least 2 years contributory service; or
- at age 55 or older, with age plus years of service totaling 90 or more.

Other retiring members have a reduction formula applied to their pensions.

The defined basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the Plan provides an unreduced benefit of 1.3% of pensionable earnings up to the YMPE and 2% of pensionable earnings over the YMPE for each year of pensionable service (to a maximum of 35 years). Pensionable earnings are based on the member's five-year highest average salary (HAS).

The Plan also provides a bridge benefit payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.7% of the lesser of YMPE or HAS.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (continued)

d) Pension Benefits (continued)

Increases to pension payments may be provided each January 1 in accordance with the indexing provisions of the Plan. These increases are based on the annual increase in the Canada Consumer Price Index (CPI) as at the previous September 30, subject to availability of funds in the Inflation Adjustment Account (Notes 6 and 7b).

At January 1, 2007, retired members received a full CPI increase of 0.7% (2006: 3.4%). At January 1, 2008, retired members will receive a full CPI increase of 2.5%.

e) Termination and Portability Benefits

A terminating member who is eligible for a pension, but has not reached the earliest retirement age, may choose:

- a deferred pension; or,
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future entitlements, or if under 60 with less than two years of contributory service, may choose a refund of contributions with interest.

Where there are portability arrangements between the Plan and other pension plans, members may be able to transfer certain pension rights.

f) Other Benefits

Disability and survivor benefits are also available under the Plan. Supplemental benefits (Note 10) may also be funded from the Supplemental Benefits Account. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefits.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (continued)

g) Income Taxes

The Plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act (Canada)* except for any supplemental benefits (Note 10) which are funded in addition to the RPP. The Plan is not subject to income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements are prepared on the going concern basis and present the Plan as a separate financial reporting entity, independent of the Plan's contributing employers and members, and independent of any associated retired member group benefit plans. The Statement of Net Assets Available for Benefits shows the assets under control of the Board, and does not purport to show whether these assets are adequate to meet the obligations of the Plan. The actuarial valuation of the basic account for funding purposes is included in Note 7.

Certain comparative figures have been reclassified to conform to the current year's presentation.

b) Investments

Investments are stated at fair value and consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly based on the value of the underlying assets. Where available, fair values of these assets are based on public market prices or quotations from investment dealers. Where public market prices or quotations are not available, fair values are derived using valuation methods such as discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics and other pricing models, as appropriate. The fair value of derivative contracts is included in the fair value of pooled investment portfolios.

Investment purchases and sales are recorded on the trade date (the date upon which the substantial risks and rewards of ownership have been transferred).

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Investment Income

Income from investments is recorded on the accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder. The current period change in fair value includes realized and unrealized gains and losses which are included in investment income.

Within the pools, dividends are accrued on the ex-dividend date. Income received and paid from derivative contracts is recognized on the accrual basis. Gains and losses on derivative contracts are recognized concurrently with changes in their fair values.

d) Use of Estimates

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in assets during the period. Significant areas requiring the use of management estimates relate to the valuation of investments and the estimate of the actuarial position of the Basic Account. Actual results could differ from those estimates.

3. INVESTMENTS (FAIR VALUE)

	2007			2006
	Basic Account	Inflation Adjustment Account	Total	Total
	($ Thousands)			
Short-term	$ 398,512	$ 139,237	$ 537,749	$ 489,161
Canadian Bonds (Note 11)	2,826,991	618,316	3,445,307	3,157,216
Canadian Equities	2,177,057	489,685	2,666,742	2,627,869
U.S. Equities	2,026,173	449,776	2,475,949	2,759,147
International Equities	2,537,362	565,801	3,103,163	3,624,514
Foreign Currency	22,626	5,167	27,793	30,271
Mortgages	643,242	144,610	787,852	631,508
Real Estate	2,040,009	456,779	2,496,788	1,968,301
Private Placements	755,445	184,127	939,572	720,448
	$ 13,427,417	$ 3,053,498	$ 16,480,915	$ 16,008,435

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

3. INVESTMENTS (FAIR VALUE) (continued)

Plan investments consist primarily of direct ownership in units of pooled investment portfolios managed by bcIMC. Each unit gives the holder a proportionate share in the net assets of the pooled investment fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

Short-term investments consist of Canadian and U.S. money market securities, such as treasury bills, with maturities of 15 months or less and short-term bonds with one to five year terms. Canadian bonds consist of government and corporate bonds and debentures and include real return bonds of $639.2 million (2006: $645.8 million) that are directly held by the Plan. Equities consist primarily of publicly traded shares, and, in the case of international equities, refer to investments in the markets of Europe and Asia, as well as key emerging markets. The foreign currency pooled fund engages in the buying and selling of foreign currency financial instruments to enhance returns through the active management of foreign currency exposure.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of diversified Canadian income-producing properties. Private placements consist mainly of Canadian and international long-term debt or equity investments made outside of the structure of public markets (Note 11).

The mortgages are secured by real estate and are valued using current market yields. Real estate is valued quarterly by bcIMC's external real estate investment managers and, at least once every ten to eighteen months, by accredited independent appraisers to establish current market values. Private placements are valued annually based on financial statements from private placement external managers.

Derivative contracts are held indirectly through various pooled investment portfolios to enhance return, manage exposure to interest rate and foreign currency risk, and for asset mix management purposes. Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates, or exchange rates.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

4. INVESTMENT INCOME

	2007			2006
	Income Allocation	Current Period Change In Fair Value	Total	Total
		($ Thousands)		
Basic Account				
Short-term	$ 22,264	$ 654	$ 22,918	$ 19,172
Canadian Bonds	125,146	(34,822)	90,324	72,443
Canadian Equities	41,327	171,455	212,782	375,414
U.S. Equities	61,378	(129,742)	(68,364)	303,887
International Equities	77,061	(189,472)	(112,411)	610,295
Foreign Currency	1,105	(2,471)	(1,366)	2,155
Mortgages	24,686	3,482	28,168	25,743
Real Estate	57,217	262,251	319,468	357,066
Private Placements	20,409	30,866	51,275	89,724
	$ 430,593	$ 112,201	$ 542,794	$ 1,855,899
Inflation Adjustment Account				
Short-term	$ 5,755	$ 421	$ 6,176	$ 4,576
Canadian Bonds	26,823	(7,471)	19,352	13,335
Canadian Equities	9,080	37,347	46,427	81,916
U.S. Equities	13,323	(29,273)	(15,950)	66,503
International Equities	16,961	(41,324)	(24,363)	131,521
Foreign Currency	250	(562)	(312)	495
Mortgages	5,408	791	6,199	5,022
Real Estate	11,897	58,022	69,919	78,869
Private Placements	9,321	2,174	11,495	24,095
	$ 98,818	$ 20,125	$ 118,943	$ 406,332
Total Investment Income	$ 529,411	$ 132,326	$ 661,737	$ 2,262,231

Investment income represents pooled investment portfolio income attributable to the Plan, as a unitholder, and as calculated by bcIMC, and interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

5. CONTRIBUTIONS

	2007				2006
	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Total	Total
			($ Thousands)		
Members' contributions					
Regular	$ 162,059	$ 48,738	$ 7	$ 210,804	$ 187,693
Arrears	266	89	-	355	214
Purchase of service	400	144	-	544	366
Leave of absence	8,943	3,188	-	12,131	7,801
Reinstatement	3,981	297	-	4,278	4,082
	$ 175,649	$ 52,456	$ 7	$ 228,112	$ 200,156
Employers' contributions					
Regular	$ 260,427	$ 6,852	$ 680	$ 267,959	$ 246,677
ERIP contributions	-	-	-	-	52
Arrears	565	75	-	640	326
Purchase of service	688	81	-	769	518
Leave of absence	15,366	1,805	-	17,171	11,105
Supplemental benefits	-	-	20,329	20,329	15,680
	$ 277,046	$ 8,813	$ 21,009	$ 306,868	$ 274,358
Provincial government	-	-	-	-	$ 20,000
Total Contributions	$ 452,695	$ 61,269	$ 21,016	$ 534,980	$ 494,514

Member and employer contributions are as defined under the Plan rules.

The provincial government made a one-time contribution of $20 million to the Inflation Adjustment Account on July 15, 2006 as a result of an agreement between the Partners.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

6. ACCOUNT TRANSFERS

	2007		2006	
	Basic Account	Inflation Adjustment Account	Basic Account	Inflation Adjustment Account
	($ Thousands)			
Present value of current indexing supplements	$ 42,380	$ (42,380)	$ 180,057	$ (180,057)
Indexing of deferred pensions	2,522	(2,522)	1,834	(1,834)
Excess interest	-	-	-	-
	$ 44,902	$ (44,902)	$ 181,891	$ (181,891)

The Inflation Adjustment Account (IAA) is a separate account that is maintained for funding current and future indexing supplements. The IAA is funded through a portion of ongoing contributions from employers and members (Note 1c), from investment income earned on its own assets, and from excess interest earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, when members' pension payments are adjusted for current indexing, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is also transferred from the IAA to the Basic Account.

There have been no excess interest transfers to the IAA for the years ended December 31, 2002 through 2007. Excess interest is based on investment income earned on those Basic Account assets required for pensions currently being paid, approximately $6.7 billion of assets for 2007 (2006: $6.3 billion). The excess interest rate of return is determined by taking the difference between the actual five-year annualized market rate of return (11.20%) and the rate of return used by the actuary (6.85%) in valuing the Plan's liabilities. The calculated excess interest rate of return for 2007 was 4.35% (2006: 2.25%) resulting in a positive excess interest amount of $293.5 million (2006: $140.7 million). The cumulative negative excess interest amount of $155.8 million will be offset against future positive excess interest amounts before positive excess interest transfers will resume.

Excess Interest	2007	2006
	($ Millions)	
Cumulative negative excess interest, beginning of year	$ (404.1)	$ (499.3)
Interest applied to beginning of year amount	(45.2)	(45.5)
Excess interest	293.5	140.7
Cumulative negative excess interest, end of year	$ (155.8)	$ (404.1)

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES

a) Basic Account

An actuarial valuation of the Plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the Plan's actuary values both accrued assets and accrued benefit obligations to the financial statement date, and contributions and benefits for future service. The actuary's calculated contribution rate is based on the entry-age method.

This method produces the level rate of the member and employer contributions sufficient to provide benefits for the average future new entrants to the Plan.

The most recent full actuarial valuation for funding purposes was prepared as at December 31, 2005 by Eckler Ltd. This valuation disclosed an unfunded actuarial liability (UAL) for basic pension benefits of $904 million (2002: $382 million UAL), assuming future contributions at the contribution rates in effect at the valuation date. The following long-term actuarial assumptions were used:

• annual investment return	6.85% (2002: 7.25%)
• annual salary escalation rate	4.10% (2002: 4.75%)

The next full actuarial valuation will be at December 31, 2008 for inclusion in the December 31, 2009 financial statements.

The Joint Trust Agreement (Agreement) specifies a transitional period during which the rebalancing of member and employer contribution rates and specified benefit improvements will be achieved. During this transitional period, if an actuarial valuation indicates that increased basic account contribution rates are required to fully fund the Plan on a going-concern basis, the increase is shared equally by members and employers.

Based on the results of the 2005 actuarial valuation, the actuary determined that an increase in contribution rates was necessary for the Plan to maintain its proper financing. Therefore, the trustees decided that, effective July 1, 2007 member and employer basic contribution rates will each increase by 1.61% of salaries, as recommended by the actuary (Note 1c).

Also during this transitional period, if surplus assets or actuarial gains occur, they will be used to achieve the following objectives in order of priority:

- Eliminating any unfunded liability
- Rebalancing member and employer contribution rates
- Providing specified benefit improvements

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

After the transitional objectives have been achieved, if an actuarial valuation indicates that increased basic contribution rates are required, the increase must be shared equally by members and employers. The Agreement also describes the manner in which the Board can elect to apply surplus assets.

b) Inflation Adjustment Account (IAA)

No unfunded liability exists for the IAA, since the obligation for future indexing benefits is limited to the amount of the available assets in the account. As indexing is granted to retired members, full funding for that granted indexing, on a net present value basis, is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of indexing required to be paid under the Plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential indexing.

The Board monitors the performance of the IAA and, at least annually, reviews a sensitivity analysis of the projected impact on the IAA of possible differing future economic trends. Such factors include inflation rates, real wage growth rates, real investment rates of return and group health benefits costs. This sensitivity analysis assists the Board to identify scenarios, some years in advance of their possible occurrence, when the IAA assets may cease to grow and when the Plan may not be able to grant full indexing of benefits. As long as there are contributions to the IAA, there will be some measure of indexing protection for retired members.

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES

An actuarial valuation is performed at least every three years. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan as described in Note 7a. As part of the actuarial valuation, the actuary also calculates values, for accounting purposes, of the Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included, in contrast to their inclusion in the valuation for funding purposes as described in Note 7a.

The Basic Account is the account from which the defined basic benefits of the Plan are paid. It is also the account from which any indexing that has been granted to retired members is paid. Future indexing benefits are not guaranteed within the Plan provisions and are granted to retired members only to the extent that sufficient assets are available from the IAA to fund those benefits. As indexing is granted, the Basic Account receives from the IAA the present value funding necessary for the indexing granted. Therefore, accrued basic pension benefits for valuation purposes include the liability for all indexing granted to the date of the valuation, but not for as yet unknown future indexing.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

The latest full valuation for accounting purposes was made as at December 31, 2005, by Eckler Ltd. The results were as follows:

As at December 31	2005	2002
	($ Millions)	
Net assets available for basic pension benefits	$ 11,340	$ 8,275
Five year market value smoothing adjustment	(890)	1,071
Net actuarial assets for basic pension benefits	10,450	9,346
Liability for accrued basic pension benefits	(11,688)	(9,898)
Unfunded Actuarial Liability (UAL)	$ (1,238)	$ (552)

The next full actuarial valuation will be at December 31, 2008 for inclusion in the December 31, 2009 financial statements.

The liability for accrued basic pension benefits at the valuation date is determined using the projected benefit method prorated on service. Net assets are valued using five-year market value smoothing. For accounting purposes, an estimate of the actuarial position between valuations is required. This estimate, called an extrapolation, has been made to December 31, 2007, using the following long-term actuarial assumptions:

- annual investment return 6.85%
- annual salary escalation rate 4.10%

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

On this basis, the extrapolated value of the UAL at December 31, 2007 is as follows:

Extrapolated Actuarial Assets Available for Basic Pension Benefits As at December 31	**2007**	**2006**
	($ Millions)	
Extrapolated actuarial assets, beginning of year	$ 11,103	$ 11,252
December 31, 2005 valuation adjustment	-	(802)
Extrapolated actuarial assets, beginning of year	11,103	10,450
Account transfers	45	182
Current year contributions	452	397
Net transfers from other plans	10	16
Pension, termination and refund benefits	(702)	(655)
Administration costs	(7)	(7)
Interest accrued on assets	755	720
Extrapolated actuarial assets, end of year	$ 11,656	$ 11,103

Extrapolated Actuarial Liability for Accrued Basic Pension Benefits As at December 31	**2007**	**2006**
	($ Millions)	
Extrapolated actuarial liability, beginning of year	$ 12,376	$ 11,803
December 31, 2005 valuation adjustment	-	(115)
Extrapolated actuarial liability, beginning of year	12,376	11,688
Account transfers	45	182
Current period benefit cost	371	349
Net transfers from other plans	10	16
Pension, termination and refund benefits	(702)	(655)
Administration costs	(7)	(7)
Interest accrued on liability	839	803
Extrapolated actuarial liability, end of year	$ 12,932	$ 12,376
Extrapolated Unfunded Actuarial Liability (UAL), December 31	$ (1,276)	$ (1,273)
Fair value of Basic Account net assets available for benefits	13,434	13,114
Fair value changes not reflected in extrapolated assets	(1,778)	(2,011)
Extrapolated actuarial assets	$ 11,656	$ 11,103

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation.

No unfunded liability exists for the IAA, since the obligation for future indexing benefits is limited to the amount of the available assets in the account.

9. INVESTMENT AND ADMINISTRATION COSTS

	2007	2006
	($ Thousands)	
Investment Management	$ 26,047	$ 17,738
Benefit Administration	6,994	7,098
Board Remuneration and Expenses	208	201
Board Secretariat Costs	209	189
Other Professional Services	238	414
	$ 33,696	$ 25,640

bcIMC and the Pension Corporation are related parties to the Plan. The Board appoints members to each of the respective corporate boards.

Costs for investment management services charged by bcIMC include costs for recovery of its internal and external investment management fees except those external management fees related to corporations wholly owned by the investment pooled funds.

Investment management costs of $16.0 million (2006: $13.8 million) representing the external management costs incurred by wholly owned corporations of the investment pooled funds are not included in the above amount.

Benefit administration costs represent amounts charged to recover benefit administration costs incurred by the Pension Corporation. These costs are approved by the Board. Included in accounts payable is $806 thousand (2006: $671 thousand) due to the Pension Corporation for those costs.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Board secretariat costs represent amounts for staffing and other costs associated with Board support.

Other professional service costs include actuarial, insurance, audit and legal fees.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

10. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account is the account through which certain supplemental benefits are funded. For example, pension benefits which exceed the *Income Tax Act (Canada)* limits for registered pension plans are paid through this account. Certain group benefit coverage may also be provided for retired members through this account. The availability, type and level of retired member group benefit coverage are contingent upon the availability of funding for such benefits.

To the extent that group benefits are funded from the Supplemental Benefits Account, they are funded from current contributions that would otherwise be employer inflation contributions and cannot exceed 0.8% of pensionable salaries. Currently this represents approximately 71% of contributions that would otherwise be employer inflation contributions. Retired member group benefit costs (shown on the Statement of Changes in Net Assets Available for Benefits) represent group benefit costs paid by the Plan, less any premiums paid by retired members.

11. COMMITMENTS

The Plan participates in private placement and international real estate pools that are managed by bcIMC. As at December 31, 2007, the Plan's share of commitments (over the next several years) for future investment contracts in these pools is approximately $776.9 million (2006: $660.7 million).

bcIMC has established collateral accounts for the Plan that are pledged as security for future investment opportunities. As at December 31, 2007, $24.3 million (2006: $17.3 million) of Basic Account Canadian Bonds are being held as collateral for an investment commitment of $9.1 million and other assured investment activity.

12. FINANCIAL INSTRUMENTS

The Plan's investments are recorded at fair value. Other financial instruments consist of cash, accounts receivable, accounts payable and accrued expenses. The fair values of these financial instruments approximate their carrying values.

The Board approves the long-term asset mix policy for investment assets through its Statement of Investment Policies and Procedures and oversees the management of these assets through the Board's investment management agent, bcIMC.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

12. FINANCIAL INSTRUMENTS (continued)

Fair values of investments are exposed to price risk and credit risk. Price risk is comprised of foreign currency risk, interest rate risk, and market risk. Foreign currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract.

Foreign Currency Risk
Foreign currency exposure arises from foreign currency denominated investments and related derivative contracts held indirectly through pooled investment portfolios. Foreign currency forward contracts are used by the underlying pools to manage a portion of the currency exposure. A foreign currency forward contract is a contractual obligation either to buy or sell a specified amount of foreign currency at a predetermined future date and exchange rate.

Interest Rate Risk
The value of the Plan's assets is affected by changes in interest rates and their effect on capital markets. Actuarial liabilities are affected by changes in long-term market interest rates.

Market Risk
Market risk is reduced through asset class diversification, diversification within each asset class and credit quality constraints on fixed income instruments.

Credit Risk
bcIMC limits derivative contract credit risk by dealing principally with counterparties that have a credit rating of A or higher as rated by the Dominion Bond Rating Service or equivalent.

Teachers' Pension Board of Trustees

MISSION STATEMENT

"To fulfill the trust the Partners have placed on us by efficiently meeting or exceeding the pension promise made to plan members."

This is a publication of the Teachers' Pension Board of Trustees.
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Teachers' Pension Plan

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